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Economic Regulation Authority
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Proposed revisions to the access arrangement for the Western Power Network 2022/23 – 2026/27

The Australian Energy Council (the “**AEC**”) welcomes the opportunity to make a submission to the Economic Regulation Authority (the “**ERA**”) on the proposed revisions to the access arrangement for the Western Power Network 2022/23 – 2026/27 (the “**AA5**”) issues paper (the “**Issues Paper**”).

The AEC is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC makes the following comments in relation to the Issues Paper and AA5. The AEC has responded to some, but not all, of the questions raised in the Issues Paper.

1. Is the network strategy Western Power has proposed to reconfigure and modernise the network, and the associated investment for AA5, reasonable, properly timed and based on sound cost estimates?

AND

2. Are uncertainties about the future of the electricity system giving rise to a risk that Western Power’s network strategy and transformation initiatives could result in expenditure/assets that are not required or not fit for purpose?

The AEC acknowledges that the energy sector is in a period of transition as the way we generate and use electricity is changing. This transition will undoubtedly continue through the AA5 period and it is appropriate for Western Power to move away from a fully integrated grid to a more flexible network with a meshed central grid, and hybrid and autonomous networks elsewhere.

The challenge is how to invest in this transition while there are still significant uncertainties, including:

- The growth of rooftop solar and residential battery storage;
- Advancements in behind the meter solutions that give homeowners and businesses more choices to optimise their generation, storage and use of electricity; and
- The increasing uptake of electric vehicles, noting that electric vehicle demand is not included in Western Power’s demand forecasts.

Uncertainty around these matters could result in incorrect forecasts by Western Power and lead to investment in long-term assets that may not be required, not required for their full technical life, or replacing existing assets earlier than necessary.

In addition, the Access Arrangement proposal has been influenced by the regulatory framework in its current form, including the reforms that have been completed under Stage 1 of the Energy Transformation Strategy, but many of the proposed reforms as part of Stage 2 of the Energy Transformation Strategy are still subject to further consideration. This creates uncertainty and the likelihood of Western Power requiring additional expenditure during the AA5 period.

Further costs may result from:

- New projects associated with the Whole of System Plan;
- The requirement for Western Power to inspect private poles directly connected to the network;¹
- The Work Health and Safety Act 2020 and related regulations; and
- The new Security of Critical Infrastructure Act 2018 (Cth).

The AEC considers that Western Power should not be unnecessarily incurring costs or investing in assets while there are still considerable uncertainties about the future electricity system and Western Power's total costs during the AA5 period.

In particular, the AEC suggests that revenue targets should not include speculative investment unless Western Power takes the risk of asset write downs. This will avoid a situation where Western Power proposes a complex capital expenditure program for an access arrangement period, a large revenue target is set over the access arrangement period, and Western Power subsequently doesn't implement the program but gets to keep much of the associated revenue under the investment adjustment mechanism.

If the capital expenditure program is implemented, Western Power should take all of the stranded asset risk associated with the program and all of the risk associated with putting assets in place earlier than necessary. In AA5, Western Power is proposing to transition to a modular grid. This will result in the deployment of a mix of new technologies that differs substantially from the current composition. The ERA should consider whether the new technologies proposed by Western Power in its network strategy and transformation initiatives will render some of the existing capital base redundant. If so, should the implementation of the network strategy and transformation initiatives be accompanied by a write down of the existing asset base in accordance with section 6.61 of the Electricity Networks Access Code 2004 (the "**Access Code**")? The AEC's view is that a depreciated optimised replacement cost ("**DORC**") valuation constraint should be applied to the regulated asset base ("**RAB**") rolling forward method. Simply rolling forward the RAB without a DORC valuation constraint in place would result in significant stranded asset risk being allocated to consumers, which is not in their long-term interests. If network users bare the stranded asset risk then Western Power will be given inefficient investment signals.

¹ See page 8, [Access Arrangement Information: Access Arrangement revisions for the fifth access arrangement period](#)

3. The ERA is seeking stakeholder views on Western Power’s proposed approaches to addressing climate change during AA5.

The Issues Paper rightly notes that weather events have impacted the network over recent years. These events have adversely affected the reliability and performance of the network and caused lengthy outages.² While the weather events are significant, they are not unprecedented and it may be more appropriate to tie the proposed system upgrades and new investment to community requirements for higher supply standards rather than addressing climate change.

One way that Western Power aims to improve reliability is through the integration of new technologies such as standalone power systems. Western Power’s proposed roll-out of 1,861 standalone power systems is significant and will make it a major generation entity. Standalone power systems can bring some advantages and boost reliability.³ However, the AEC’s view is that:

- Standalone power systems should only be installed in parts of the network where it is cheaper than maintaining the existing network;
- The focus should be on minimising the forward-looking costs and not on historical investment costs. Even if standalone power systems are cheaper than maintaining the existing network they should not be installed if the assets they replace have not been fully depreciated and need to be written down;
- Competition should be encouraged in the provision of stand-alone power systems and the ERA should closely scrutinise the installation of the standalone power systems to ensure that Western Power undertakes a competitive tendering processes to select vendors.⁴

Western Power’s proposal also points to bushfire management and pole management programs “to make the network more resilient to bushfires and adverse weather events”.⁵ Western Power plans to underground 875 kilometres of power lines to “improve network resilience in response to extreme climate events.”⁶ The AEC considers that these are not measures just to address climate change but are instead programs aimed to reduce the risk of Western Power assets causing sparks and ground fires, and impacting property and people. The ERA should assess whether these programs are being justified solely on the basis of climate change and if that is appropriate.

Finally, Western Power states in its Access Arrangement proposal that:

“New wind and solar is cheap enough to undercut existing coal or gas plants. To support this pathway, we will continue to facilitate the connection of large-scale and small-scale renewable generations.”⁷

Despite this, Western Power has not included any significant transmission network augmentations in its Access Arrangement proposal. Western Power’s position is based on the Whole of System Plan (“**WOSP**”) which indicates that no significant amount of transmission upgrades are required in the SWIS and assumed that new generation build would occur in areas of the SWIS that had spare transmission capacity, such as the South West region. Marsden Jacobs Associates considered this as part of an independent report

² See page 17, [Proposed revisions to the access arrangement for the Western Power Network 2022/23 – 2026/27: Issues paper](#)

³ However, it should be noted that a large-scale roll-out of standalone power systems can have a large impact on generators and retailers.

⁴ See page 201, [Access Arrangement Information: Access Arrangement revisions for the fifth access arrangement period](#)

⁵ See page 18, [Proposed revisions to the access arrangement for the Western Power Network 2022/23 – 2026/27: Issues paper](#)

⁶ See page IV, [Access Arrangement Information: Access Arrangement revisions for the fifth access arrangement period](#)

⁷ See page 23, [Access Arrangement Information: Access Arrangement revisions for the fifth access arrangement period](#)

produced for the AEC and they point out the significant obstacles to developing large-scale renewable assets in the South West region, including:

- The forecast population growth in the region;
- Large amounts of land that is current state forest or prime agricultural land; and
- Resistance to large-scale projects due to its tourist location.

While Marsden Jacobs Associates expects little large-scale renewable development in the South West region for these reasons, they say that:

“Even if we accept that large-scale wind and solar projects will commence in the South West region, further investment in both large-scale solar and wind farms is still required to meet demand in both the Techtopia and Double Bubble Cases. Because of transmission limits in other regions (e.g., North Country, Mid East etc), considerable investment in the network will be required to support these developments.

Western Power’s assumption that operational demand will continue to be flat, and that transmission augmentation will not be significant, is in stark contrast to the findings from AEMO’s Integrated System Plan (ISP) that has been developed for planning purposes in the NEM.”⁸

Marsden Jacobs Associates concluded by recommending a review of Western Power’s transmission planning process and giving consideration to significant network upgrades to support the creation of renewable energy zones in the North Country, East Country, and the Muja region to facilitate efficient grid connection of large-scale renewable generators and decrease the risk of congestion.⁹

The WOSP was an interesting modelling exercise that relied on a limited set of inputs. It did not include a target of net zero emissions by 2050. Using the WOSP under these circumstances to plan transmission network augmentations is problematic and does not send the correct signals to Western Power to plan network upgrades to support renewables.

Overall, the AEC considers that many of Western Power’s programs are proposed to improve system reliability rather than address climate change, and the lack of transmission network planning limits the connection of new large-scale renewable generation.

4. The ERA is interested in stakeholder views on Western Power’s approach to safety, including any work practices it has adopted to ensure the safety of its workforce and the community.

The AA5 proposal broadly identifies two areas of safety concern:

- Pole top fires and other fire risks, and faulty connections that could lead to electrocution; and
- Cyber security threats.

The AEC will comment on fire and electrocution risk, and its impact on service standards, in the following section.

The AEC supports efforts to enhance cyber security and protect customer data. Western Power will also need to comply with the new *Security of Critical Infrastructure Act 2018 (Cth)* although the obligations have been reduced significantly since the initial drafts. However, the AEC’s position is that all costs attributable to safety should be justified and based on a need to address real issues and comply with legislation. Safety should not be used to explain any over-expenditure.

⁸ See page 90, [Revenue adequacy for generators in the WEM](#)

⁹ See page 14, [Revenue adequacy for generators in the WEM](#)

5. The ERA is interested in stakeholder feedback on whether the revised access arrangement should incorporate measures focussed on reliability performance in specific areas of the network where reliability is below or tracking below the benchmark.

The Issues Paper notes that outages caused by planned outages or transmission outages have previously been excluded from distribution performance measures, meaning that what is being measured could be different from what customers are experiencing. The Issues Paper goes on to say:

“As determined in the ERA’s framework and approach, for AA5, Western Power will no longer exclude transmission outages from its service standard performance. This should result in future outage performance data (and the incentive/penalty mechanism) reflecting outages occurring in the Goldfields and Mid West when those transmission lines fail.”¹⁰

The AEC supports having transmission outages included in the performance data. This change will improve transparency and assist in justifying any network augmentation.

The Issues Paper also states:

Western Power is also required to no longer exclude force majeure events from distribution outage performance. However, Western Power can exclude time when it is unable to access a site due to a total fire ban or directions from emergency services. A similar exclusion exists in the National Electricity Market.”¹¹

The nature of Western Power’s assets and activities gives it a legitimate fire and electrocution safety concern. However, managing these safety issues may postpone access to the network especially on Fire Weather Days and Total Fire Ban days when Western Power’s procedures impose requirements which often delay power restoration and prolong outages for customers. This can impact customer perceptions of service standards.

Since the Issues Paper was published, the findings of the State Government commissioned inquiry into the outages experienced in the Perth metropolitan area over the Christmas 2021 period has been released. One of the recommendations is for:

“Western Power to work with key stakeholders such as the Department of Fire and Emergency Services and Local Government Authorities, to review Western Power’s fire risk management approach with regard to the restoration of electricity supply on higher fire risk days.

It is recommended an Independent Expert be appointed to facilitate the review and identify strategies for customer restoration which balance the community safety impacts of extended outages during extreme heat events and fire risk in that specific area of the network.

The review should support improved community outcomes by considering (but not be limited to) the following areas:

- *...Have a shared understanding of the community impact of power outages and fire, in conditions prone to higher fire risks (such as heat waves).*
- *Coordination of consumer communication and activities on higher fire risk days where customer safety and power reliability is at risk from extreme weather conditions.*

¹⁰ See page 24 & 25, [Access Arrangement Information: Access Arrangement revisions for the fifth access arrangement period](#)

¹¹ See page 24 & 25, [Access Arrangement Information: Access Arrangement revisions for the fifth access arrangement period](#)

- *The appropriateness of Western Power’s response on Total Fire Ban day and Fire Weather Days.*
- *Empowerment of Western Power to act to restore power on Total Fire Ban days where the risk of fire is low or community impact of the outage is high, including where:*
- *the cause of an outage cannot be identified but is likely with a high degree of certainty (such as overload outages) to not be a fire ignition risk;*
- *the network and local conditions are such that the probability of fire occurring and getting out of control is very low;*
- *a State-wide Total Fire Ban has been called due to DFES resourcing constraints and local conditions (such as weather, Fire Danger Index and network) would not have otherwise triggered a Total Fire Ban; and*
- *DFES could apply an emergency direction under a Total Fire Ban Exemption.”¹²*

The AEC encourages the ERA to monitor this review and the other recommendations from the inquiry. It may be appropriate that service standards are amended to reflect this recommendation.

8. The ERA is interested in stakeholder views and experience of how well Western Power communicates with customers and whether current service standards are adequate or any improvements are needed.

It is important that Western Power actively communicates with customers. When there is an outage, Western Power should provide timely, transparent and accurate information so customers can respond to the situation appropriately.

It appears that in recent years Western Power has improved its communication and engagement levels across various platforms. However, the Independent Review of Christmas 2021 Power Outages concluded that more could be done:

“the Review found through stakeholder consultation that Western Power’s communication strategy could be improved to meet stakeholder expectations. These improvements include: more regular and detailed communication during an outage; greater use of direct customer communication before and during an event; distinct communication strategies for vulnerable customers (including those on life support); recognition of the health impacts during a heatwave and appropriate health messaging/referrals; and greater engagement with impacted LGAs.”¹³

A recommendation in the report is for Western Power to consult with stakeholders on improvements to customer and stakeholder communications in the lead up to and during outage events. The AEC encourages the ERA to monitor the progress of this consultation and consider whether improved service standards in this area are needed.

¹² See page 50 & 51, [Independent Review of Christmas 2021 Power Outages: Final Report](#)

¹³ See page 47, [Independent Review of Christmas 2021 Power Outages: Final Report](#)

10. The ERA is seeking:

- **Stakeholder views on the proposed new tariffs and new tariff structures, including whether they will facilitate the connection of storage and electric vehicle charging stations and encourage demand patterns that will minimise the need for network augmentation.**
- **Stakeholder views on, and any information to assist in the review of, the tariff structure, future cost estimates, cost allocation and rebalancing of tariffs.**

Services that cannot be used

Some AEC members have expressed concern about Western Power not being in a position to provide certain AA4 reference services despite recovering the costs for these services under sections 6.4 and 7.3 of the Access Code. These services include:

- D6 – Remote Direct Load Control Service
- D7 – Remote Direct Load Limitation Service
- D8 – Remote De-energise Service
- D9 – Remote Re-energise Service

Some AEC members have advised that they have been unable to use these services because of issues with Western Power systems and processes. The AEC encourages the ERA to pursue Western Power and confirm they have resolved their system process issues and will be able to provide these remote load control and energisation services in AA5.

D6 Remote load/inverter control

The remote load/inverter control service is important to assisting users and customers develop innovative arrangements to use the network more efficiently and reduce the amount of investment needed to augment the network. However, the service being proposed is not simple and it is unclear what the user is paying for and what they will get. The AEC suggests that the ERA consider how this service can be designed to address these issues.

B3/C15 Services facilitating a distributed generation or other non-network solution

This service has the potential to provide significant benefit to incentivise users and customers to develop innovative energy solutions, use the network more efficiently and reduce the capital expenditure on the network and the regulated asset base. However, some AEC members have not been able to use the service and it is a concern that service will not be used in AA5. The AEC encourages the ERA to consider how this service can be designed so that it is simple and clear for users to apply for and receive the benefits of private investment on the network.

11. The ERA is interested in stakeholder views on Western Power's proposed operating and indirect expenditure and any information stakeholders may have to inform the ERA's assessment of the efficiency of the proposed expenditure.

A key change to the Access Code was the introduction of alternative options, which allowed the network operator to test the market for the appropriate option each time it seeks to make an investment in its network. It also allowed the network operator to recover operating expenditure where it is incurred as an alternative to providing covered services through investing in a major augmentation of the network. It is notable that there is no operating expenditure allocated to alternative options in the AA5 period. Many of the step change costs could only be considered efficient if there was a corresponding reduction in capital expenditure ("capex").

The AEC encourages the ERA to thoroughly review the proposed operating expenditure to satisfy itself that these costs are warranted. In addition, the AEC suggests that Western Power should provide evidence that it has considered alternative options and identify operating expenditure that has been allocated to alternative options.

12. The ERA is interested in stakeholder views on the proposed capital expenditure and any information stakeholders may have to inform the ERA's assessment of the efficiency of the proposed expenditure.

Western Power is proposing to invest \$5,376 million of capital during the AA5 period. Approximately \$1,035 million of this will be recovered directly from customers in the form of either capital contributions or gifted assets. It is expected that \$4,341 million will be added to the regulated asset base and recovered through reference and non-reference tariffs.¹⁴

It is significant that the forecast net capital expenditure for AA5 is \$1,084.1 million higher than the AA4 forecast and \$1,406.1 million higher than the AA4 actual.¹⁵ It appears that this increase in expenditure is due to a limited number of new projects:

- SCADA and communications (\$483 million) – Western Power is proposing to update its SCADA and Telecommunications network during the AA5 period to support the digital network and enable the integration of distributed energy resources. Western Power say that this investment will enable the introduction to new and emerging technologies.¹⁶ The AA5 proposal includes \$483.4 million of capital expenditure of which only \$188.4 million is needed to replace equipment that is obsolete and unsupported. Given the uncertainties of the future electricity system and the potential for a large amount of additional costs during AA5, the AEC encourages the ERA to consider whether the full SCADA upgrade is necessary at this time or if a portion of the proposed SCADA works can be delayed to limit some of the price increases during the AA5 period.
- Undergrounding of power lines (\$440 million) – This should be justified and the least cost solution, otherwise work should be deferred.
- Standalone power systems (\$330 million) – As noted above, this should be justified and the least cost solution. Competition should be encouraged and a tender process undertaken by Western Power.
- Replacing all meters with advanced meters during AA5 (\$317 million) – The ERA's final decision on Western Power's proposed advanced metering investment ("AMI") in AA4 indicated that the benefits had been overstated and Western Power had not demonstrated a positive net benefit for the advanced metering program. As a result, the ERA required expenditure for the communications infrastructure to be removed from the forecast capital base.¹⁷ However, subsequent amendments to the Access Code (sections 6.5F to 6.5J) permitted Western Power to recover as part of AA5 all AMI communications expenditure incurred prior to 30 June 2022. The ERA should thoroughly assess any proposed AMI expenditure after 30 June 2022 and satisfy itself that it is efficient and consistent with the Access Code objectives.

¹⁴ See page XIX, [Access Arrangement Information: Access Arrangement revisions for the fifth access arrangement period](#)

¹⁵ See page 35, [Proposed revisions to the access arrangement for the Western Power Network 2022/23 – 2026/27: Issues paper](#)

¹⁶ See page XX, [Access Arrangement Information: Access Arrangement revisions for the fifth access arrangement period](#)

¹⁷ See sections 721-727, [Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network 2017/18 – 2021/22](#)

The AEC also notes that IT costs are forecast to significantly increase during the AA5 period. Western Power's proposal shows that IT capex will jump 32.2 per cent from \$251.8 million in AA4 to \$332.8 million in AA5. The majority of this investment is in various enterprise systems used by Western Power. This is a substantial increase in capex that needs to be justified. If any portion of this IT capex is not necessary at this time then it is suggested that the expenditure is delayed. The AEC also notes that if so many systems are replaced in one period, then it is likely they will be due for replacement in another single period in 10 to 15 years.

Finally, an item not addressed in Western Power's proposal is whether alternative options have been considered to reduce capital expenditure. It is a requirement for Western Power to test the market for an alternative option service each time it seeks to make an investment in its network.¹⁸ The network operator should provide details of whether it has tested the market, the outcome of the process, and if any alternative options will be used in AA5.

The capex proposed by Western Power is substantial. The ERA is encouraged to thoroughly review the capex items to determine if they are warranted and can be deferred to a later period.

13. The ERA invites submissions on Western Power's proposed alternative cost of debt approach.

Western Power has proposed a 10-year trailing average debt approach that has removed the need to fix the risk free rate over the AA5 period. The Issues Paper notes that this proposed approach to the cost of debt increases debt costs by approximately \$383 million during AA5.¹⁹

The method proposed by Western Power means the revenue targets will be subject to greater change each year than under the ERA's current approach and it will be difficult to assess the variance between expected and target revenue over the AA5 period.

The AEC considers that the current approach better serves clauses 6.4(b) and 6.4(c) of the Access Code. It is also consistent with the ERA's existing method for calculating the cost of debt. The ERA is currently proposing this approach for the gas rate of return instrument.²⁰

14. The ERA invites submissions on Western Power's proposed change from a 5-year to a 10-year term for the risk free rate for equity.

Western Power seeks to change the risk free rate for equity from a 5-year term to a 10-year term based on Commonwealth government bonds. Western Power is incentivised to do this because it substantially increases revenue for equity costs.

The ERA has used a five-year term for the risk free rate for several years. A report produced by Dr Martin Lally supports the ERA's approach.²¹ The ERA is also currently proposing a 5-year term for the gas rate of return instrument.²²

The AEC supports the ERA's approach of using a 5-year term for the risk free rate for equity.

¹⁸ See page 3, [Energy Transformation Strategy: Proposed changes to the Electricity Networks Access Code 2004](#)

¹⁹ See page 40, [Proposed revisions to the access arrangement for the Western Power Network 2022/23 – 2026/27: Issues paper](#)

²⁰ See [2022 gas rate of return instrument review: Discussion paper](#)

²¹ See [The appropriate term for the allowed cost of capital](#)

²² See [2022 gas rate of return instrument review: Discussion paper](#)

15. The ERA is seeking stakeholder views on the asset lives proposed by Western Power.

The AEC notes that the forecast depreciation in 2026/27 of \$633.1 million is 47 per cent higher than the forecast depreciation in 2022/23 of \$443.8 million. The main explanation for this increase in depreciation is that much of the capex during AA5 is on assets with relatively short economic lives. For example, Western Power is proposing an economic life of 15 years for standalone power systems (capex budget of \$330 million) and an economic life of 10.2 years for SCADA and communications (capex budget of \$483 million). The straight-line depreciation method used by Western Power accelerates the depreciation of these assets.

Western Power notes in its AA5 submission that the proposed reductions in the economic life for the existing asset classes is based on a recent tax ruling (TR 2021/3) but for new asset classes the proposed economic life is based on Western Power's assessment of these assets.

Western Power is incentivised to reduce the life of its assets to bring forward the revenue it can earn. This is not in the long-term interests of network users and their end use customers. The ERA should satisfy itself that the proposed asset lives are realistic and consistent with asset lives used in other jurisdictions.

The AEC also suggests that the ERA should consider the merits of other depreciation methods.

Item 7.3H(c) of the Access Code requires that revenue expected to be recovered from each reference tariff must minimise distortion to the price signals. In addition, to support this requirement, item 6.4(b) and 7.1D require that:

1. Users are able to predict the likely annual changes in target revenue during an access arrangement period; and
2. The network operator must provide a forecast of the weighted average annual price change for that reference tariff for each pricing year of the access arrangement period.

Therefore, the way depreciation is calculated and applied to capital-related costs and the approved total costs directly impacts the effectiveness and outcome of the Access Code requirements.

In this context, the AEC considers that the application of a real annuity method of depreciation²³ would better serve clauses 6.4(b) and 6.4(c) and meet the Access Code objective – while remaining consistent with clauses 6.43 and 6.70 - when compared to the straight-line depreciation approach that is used by Western Power in its AA5 proposal.

The improvement would be due to the flat overall capital cost recovery profile that the real annuity method affords and the fact that network users face a higher weighted average cost of capital than Western Power. A move to the real annuity method of depreciation would thus improve the net present value of network user's cash flows without impacting the net present value of Western Power's cashflows, which would place downward pressure on network prices and ultimately retail prices. Moreover, the move would provide some benefit for the network by preserving the network's capital base for longer, resulting in a stronger balance sheet over the life of the assets.

²³ Given by: $\text{Depreciation} = \text{annuity} - \text{return on the regulated capital base}$

Regulatory precedence for the application of an annuity method of depreciation includes:

- ERA determinations under the Western Australia Railways (Access) Code 2000
- The ERA's determination for the recovery of deferred revenue resulting from the change in WP's treatment of capital contributions in the calculation of target revenue between AA1 and AA2
- ERA determination for light emitting diode streetlight asset tariffs (for FY2020)
- AER determinations for streetlight assets
- Queensland Competition Authority determinations for Sunwater and Seqwater
- New South Wales Independent Pricing and Regulatory Tribunal determinations for State Water (pre-2006)
- Essential Services Commission of Victoria determination for Southern Rural Water (pre-1 July 2006 assets)
- United Kingdom's Water Services Regulation Authority determinations for under-ground water assets

Other issues

Governance

The AEC notes the ERA's Draft Determination for AEMO's allowable revenue and forecast capital expenditure proposal for the period 1 July 2022 to 30 June 2025.²⁴ The AEC commends the ERA on its scrutiny of AEMO's governance practices to assess whether the operating expenditure and capex forecasts had for the AR6 period been subject to adequate top-down challenges by AEMO's WA Leadership Team, AR6 Steering Committee, ELT and Board.

The AEC encourages similar ERA scrutiny of Western Power's governance to assess if Western Power is also actively working to control costs related to its AA5 proposal or whether its processes are more focused towards justifying and explaining costs to the ERA.

The AEC also suggests that the ERA apply similar scrutiny when conducting its ex-post review of Western Power's actual AA4 capital expenditure. A process designed to merely justify and explain AA4 expenditures to the ERA would not be in the long-term interests of consumers and Western Power should use the exercise to genuinely identify any capex that is delivered inefficiently or imprudently.

AA5 Start Date

The AEC notes that the access arrangement has not considered the time users require to implement the changes in AA5. The AEC suggests that the ERA consider the time required for implementation and to set a start date for AA5 that gives users and customers sufficient time to prepare for and implement the changes in AA5.

²⁴ See [Australian Energy Market Operator's allowable revenue and forecast capital expenditure proposal for the period 1 July 2022 to 30 June 2025 Draft determination](#)

Conclusion

The AEC sincerely appreciates the consultation process conducted by the ERA. The AEC welcomes the opportunity to provide the above feedback on the Issues Paper and AA5.

Please do not hesitate to contact Graham Pearson, Western Australia Policy Manager by email on graham.pearson@energycouncil.com.au or by telephone on 0466 631 776 should you wish to discuss this further.

Yours sincerely,

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